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SUBJECT: Malaysia's 2007 Trade Figures: U.S. Economic Woes Take  
Their Toll

¶1. Summary. After years of strong export growth that has formed the backbone of Malaysia's economy, Malaysia's trade growth leveled off in 2007, with exports growing just 2.7% from 2006. The manufacturing sector, which accounts for 75% of Malaysian exports, grew just 0.2%. A surge in palm oil exports helped offset the weak figures for manufactured goods, though palm oil exports only account for 6.2% of total exports. Malaysia still depends heavily on exports of electrical and electronic (E&E) products; falling demand for such products in most of Malaysia's major export markets, including the United States, was the prime culprit for the weak export results. U.S.-Malaysia two way trade declined from USD 49.1 billion in 2006 to 44.5 billion in 2007. In announcing the 2007 statistics Trade Minister Rafidah Aziz professed optimism for accelerated export growth in 2008, to be driven by strengthening global demand for E&E products. She scarcely mentioned the United States (and made no mention of our ongoing FTA negotiations), emphasizing instead Malaysia's intention to strengthen its trade with China, India, and other fast-growing economies. End summary.

Trade is growing, but not very quickly  
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¶2. Malaysian Trade Minister Rafidah Aziz announced preliminary 2007 trade figures at a press conference in Kuala Lumpur on February 12. Rafidah put a positive spin on the 2007 statistics, noting at the outset that Malaysia's total trade hit a record high of RM 1.11 trillion (USD 341 billion). However, this figure marked just a 3.7% increase from RM 1.07 trillion in 2006. Malaysia's trade surplus shrank last year as imports grew at 4.9 % while exports grew just 2.7 %; this was only the second time in the last decade that imports grew faster than exports. The tepid export growth figure was the lowest since 2001 (when the number of exports actually fell), and was less than a third of the growth registered in 2006.

¶3. The manufacturing sector, which accounts for 75% of Malaysian exports, registered just 0.2% export growth in 2007. Electrical and electronic (E&E) product exports, which accounted for 59% of Malaysia's manufactured exports, decreased by 5.2%. This reflects an 18% decrease in E&E exports to the U.S., as well as decreases in such exports to Singapore (8.5%), Hong Kong (6.4%) and Japan (2%). Of Malaysia's top five destinations for E&E exports, only China registered an increase (29.9%), though it still accounts for less than 10% of such exports.

¶4. One significant success story for Malaysian exports in 2007 was palm oil. The value of palm oil exports increased by 45.5%, and now account for 65% of agricultural exports and 6.2 % of total exports. Palm oil exports registered strong growth in the three leading export markets: China (70.1% growth), Netherlands (31.6%) and the U.S. (54.4%). Though the U.S. is Malaysia's third largest export market for palm oil, however, the total value of such exports was just RM2.6 billion (USD 800 million).

## Declining Trade with the United States

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15. Seeking a positive overall message on Malaysia's trade in 2007, Rafidah only briefly mentioned Malaysian trade with the U.S. Nevertheless, Malaysia's largest single trading partner could not be completely ignored. Rafidah announced that exports to the U.S. declined 14.5% in 2007 to RM95 billion, compared to RM110 billion in 2006. Imports from the U.S. also fell sharply, by 9.2% to RM 54.7 billion, from RM 60.2 billion in 2006. Total trade with the U.S. declined by 12.7% to RM 149 billion, from RM 170.8 billion in 2006. U.S. Department of Commerce statistics released February 14 confirm the weakening trade relationship. According to Commerce, two-way trade amounted to just USD 44.5 billion in 2007, down from USD 49.1 billion in 2006. Malaysia now ranks as the U.S.'s 16th largest trading partner, down from 10th place just two years ago.

16. Although the E&E sector had by far the most significant impact on the decrease, other sectors experiencing sharp export declines included wood products (down 18% to RM 2.8 billion) and textiles and apparel, down 8.9% to RM 2.7 billion. E&E exports continued to constitute 75% of all exports to the U.S., a figure that has remained fairly consistent in the last decade. This consistency reflects Malaysia's inability to significantly diversify its export base, notwithstanding its oft-publicized efforts at trade diversification.

## Seeking More Markets

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17. Given the projected slow growth in 2008 in many of Malaysia's major export markets such as the U.S., Japan, and the Netherlands, Malaysia is looking towards booming China and India to boost its export performance. Rafidah expressed optimism that export growth

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will be much stronger in 2008 globally, as even weakened economies like the U.S. begin to improve, and she suggested that export growth approaching 7% was feasible. Rafidah noted that semiconductor devices and integrated circuits will remain a mainstay of Malaysia's E&E exports in 2008, and said that forecasts that this industry will grow by 7.7% globally was good news for Malaysia.

18. Rafidah spoke at some length regarding Malaysia's intention to open up additional export opportunities through additional free trade agreements, in particular with India, with which Malaysia held a first round of talks in early February. She also encouraged Malaysian firms to take advantage of the FTAs with Japan and Pakistan. Rafidah made no mention of the ongoing FTA talks with the U.S., however.

## Comment

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19. Rafidah's characteristically upbeat performance could not disguise Malaysia's weak 2007 trade statistics (though the mainstream Malaysian press emphasized the positive parts of her presentation). Malaysia's overwhelming reliance on E&E exports has been of great benefit to its economic development over the years, but a softening of global demand in the sector highlights the risk that come from having an undiversified export base. Malaysia's consistently strong trade ties with the U.S. also had negative implications in 2007 given the U.S. economy's weakness. It may only be a matter of time before we hear some Malaysians question the wisdom of Malaysia seeking an FTA with the U.S. under the current circumstances.

KEITH